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RUEHUJA/AMEMBASSY ABUJA 1813
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RUEHRL/AMEMBASSY BERLIN 0443
RUEHBY/AMEMBASSY CANBERRA 1120
RUEHDK/AMEMBASSY DAKAR 1477
RUEHKM/AMEMBASSY KAMPALA 1899
RUEHNR/AMEMBASSY NAIROBI 4327
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RUEHGV/USMISSION GENEVA 0970
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UNCLAS SECTION 01 OF 03 HARARE 000018

SIPDIS

AF/S FOR S.HILL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN
TREASURY FOR J.RALYEA AND T.RAND
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN
COMMERCE FOR BECKY ERKUL

SIPDIS

E.O.12958: N/A
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SUBJECT: Zim Notes January 11, 2008

11. The Embassy Harare Political/Economic Section began producing Zim Notes in July, 2007 to present a perspective on current events in Zimbabwe. Suggestions are always welcome. If you would like to receive Zim Notes by email, as well, please contact Frances Chisholm at chisholmfm@state.gov. Distribution is restricted to U.S. government employees.

12. Parallel rate for cash: ZW\$2.5 million:US\$1; For bank transfers: Z\$4.5 million; Official rate: ZW\$30,000:US\$1
Sugar on the parallel market fell to Z\$2.6 million/2kg vs. controlled price of Z\$247,000/2kg
Cooking oil on the parallel market rose to Z\$9 million/750ml vs. controlled price of Z\$440,000/750ml
Petrol rose to Z\$3.6 million/liter vs. Z\$60,000/liter at controlled price

On the Political/Social Front

13. Countdown to Elections... SADC talks are stalled over ZANU-PF's refusal to postpone elections and implement an agreed-upon draft constitution before elections. Faced with an uneven electoral playing field (delimitation of new constituencies favoring ZANU-PF and obstacles in registering new voters), continuing political intimidation, and difficulties in organizing for a March election, the MDC has considered a boycott of the elections which it fears may serve to legitimize Mugabe in the likely event he wins. But it appears the two MDC factions will contest the elections, which probably will take place on March 29, as a coalition.

14. Indigenization and Empowerment Bill... Dead?... The Indigenization and Empowerment Bill passed by parliament in October 2007, appears to have died a natural death as a result of President Mugabe's failure to sign it within the statutorily prescribed time. The Bill sparked heated debate when it was first introduced in August. It mandates over time 51% indigenous ownership of businesses. We understand the controversial Bill was transmitted to

Mugabe on November 15th 2007. There is speculation that he declined to sign it now because he feared the reeling economy could not withstand yet another shock. The government will undoubtedly revisit this subject.

15. Hefty Raise Ends Judicial Strike... Magistrates, prosecutors and other court staff head back to work after a three-month strike for better pay and working conditions. State media reported that the government raised salaries by 2,200% to between ZW\$460 million and ZW\$1 billion (about US\$180 - US\$400 at the parallel market rate). The lowest paid magistrate previously earned ZW\$20 million per month. The strike brought the judicial system to a halt across the country as nearly all court cases were delayed, and pretrial detainees languished in Zimbabwe's overcrowded remand prisons. Prior to the strike, there was already a reported backlog of 350,000 cases in the judicial system.

16. Teachers Get 1,000% Pay Raise... The government also opened the wallet for teachers who had threatened to remain home when the next school term starts on January 15. The lowest paid teacher's base salary went from ZW\$15 million to ZW\$150 million (about US\$6 to US\$60). A Progressive Teacher's Union of Zimbabwe (PTUZ) representative said that while the increase will help struggling teachers in the short-term, it is not nearly enough given deteriorating economic conditions. PTUZ plans a new round of consultative sessions with members. The government may have bought a few weeks of labor peace, but it faces additional labor actions in coming months as the increasingly restive civil servants, including doctors and nurses, continue to press for wages that keep up with galloping inflation.

17. Ag Workers Get A Raise, Too... The National Employment Council
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(NEC) for Agriculture and its social partners (including the farm workers union and the farmers unions) agreed to a wage increase starting December 1. The lowest paid worker in general agriculture received a 300% increase in the monthly wage to ZW\$10 million (about US\$4 on the parallel market), in horticulture a 414% increase to ZW\$18.5 million (about US\$8), and in timber a 414 percent increase to ZW\$19.5 million. Hyperinflation, however, will quickly erode the value of these slim increases, and commercial farmer tell us that the labor shortage is acute, at least at these wages.

18. Deteriorating Water and Sanitation Situation... The water and sanitation situation in urban areas of Zimbabwe is rapidly declining, with the potential for severe public health consequences. While the primary focus of humanitarian water, sanitation, and hygiene assistance to date has been on Bulawayo, there are reports of increased incidences of diarrhea in Harare's high-density suburbs. The number of diarrhea cases in both cities is considered manageable for now, but close monitoring is needed. Contingency supplies are in place to handle a small-to-moderate size diarrhea-related outbreak in one or two urban areas, with full stocks to address a large-scale crisis to be in place by the end of January. Next steps, including mid-to-long term strategies to address water, sanitation, and health concerns, are being considered by the UN, GOZ, and donors, including USAID. See Harare 0009

On the Economic and Business front

19. Cash Crunch Continues... Despite the introduction of new, higher-denominated bearer checks on December 31 intended to solve the cash crisis that has gripped Zimbabwe since early November, the cash shortage is still severe and widespread. A survey of the banks in downtown Harare this week found longer queues forming outside most bank branches in the early hours of the day than a week ago, reflecting the growing transaction demand for cash arising from a rate of inflation rate that ended the year as high as 130,000% according to one respected private report. While the RBZ is apparently reluctant to increase the money supply and fuel inflation further by injecting liquidity, it's clear that the amount of cash in circulation is still woefully inadequate to satisfy transaction needs.

¶10. Zimbabwe - One of World's Best-Performing Stock Exchanges - Even In Real Terms... The Zimbabwe Stock Exchange (ZSE) was one of the best performing stock markets in the world in real terms in 2007 despite the sharply deteriorating state of the economy. The mining and industrial indices recorded staggering increases of 619,656% and 332,258% respectively between January 2 and December 31, 2007. Robust demand came from both institutional and individual investors seeking a hedge against inflation. Foreign investors have also started to return to the ZSE, attracted by the significant discounts arising from undervalued Zimbabwean assets following years of under-investment. Almost all industrial and mining counters recorded huge increases on the year. The stampede into equity is likely to persist amid unrelenting economic instability.

¶11. More Land Put Under Crops This Summer... The FAO-led Agriculture Coordination Working Group reported the following agricultural season highlights as of December 14, 2007:
-- Total land area prepared for planting: about 1,149,407 ha
-- Area put under crops: 944,528 ha compared to 681,348 ha in the same period last year
-- 475,901 ha planted to maize as compared to 361,497 ha in same period last season
-- About 39,417 ha of tobacco planted; 66% of the targeted 60,000 ha
-- An estimated 123,396 ha of cotton planted (90,953 ha same time last year)
-- Area planted to small grains: around 153,495 ha (75,407 ha same

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¶12. December Rains Break Record, And It's Still Pouring... December was the wettest month in the country's 127 year history of recorded rainfall patterns according to Zimbabwe's Meteorological Services Department. Preliminary reports from the Government's Civil Protection Unit indicate that over 8,000 people in Zimbabwe have been affected by floods so far, and approximately 25 deaths have been attributed to flooding. More rain is forecast over much of the country in the next days. USAID's Famine Early Warning System Network (FEWSNET) predicts a "low to moderate" tilt in the odds for less than average rainfall for the remainder of season.

¶13. Rainfall to date has caused extensive waterlogging of fields, but it is too early to ascertain the full impact on national food production. Nevertheless, there are indications that late planting, lack of top dressing to compensate for leaching, and the incessant rains will affect yields, despite increased land put under cultivation this season.

¶14. Quote of the Week, from the Financial Gazette of January 10-16. John Worsley Worswick, chief executive officer of Justice for Agriculture (JAG), on the outlook for this growing season: "It will be the mother of all disasters"

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